



Think Ahead



# Integrated Reporting in Turkey

Current Situation

Stakeholders' Perceptions and Expectations



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# Preface



## Professor Güler ARAS

Yildiz Technical University  
Founding Director, Center for  
Finance Corporate Governance and  
Sustainability (CFGS),  
Founding Chair, Integrated  
Reporting Turkey Network (ERTA)

The institutions and stakeholders closely following the developments in the world, require corporate information to be shared in a manner and quality that it can meet ever-changing needs. This requirement, which the conventional reporting cannot meet alone, may now be satisfied with an integrated reporting. In 2010, under the leadership of Mervyn King, the International Integrated Reporting Council (IIRC) has been established and the spreading integrated thinking and reporting format began to be closely followed in Turkey as is the case with the rest of the world. In 2013, with the project that I submitted to The Coordination Council for the Improvement of Investment Environment through the working committee which I am a member in Turkish Industry and Business Association (TÜSİAD), and upon its acceptance, a concrete step has been taken in Turkey regarding the Integrated Reporting. The publication titled “New Era in the Corporate Reporting: Integrated Reporting” was prepared under The Coordination Council for the Improvement of Investment Environment’s action plan for 2014-2015 and this guidance will lead the companies operating in Turkey with respect to the integrated reporting as it is the first guide book published in this field.

Once again, as a result of these studies, it was decided to establish Integrated Reporting Turkey Network (ERTA) in order to generalize the Integrated Thinking and Integrated Reporting approach throughout all organizations in Turkey, raise awareness and support implementations, accordingly. Thanks to Mervyn King’s incredible motivation and support, I assumed an important responsibility as an independent founding member and the chief chair of ERTA to maintain the ongoing efforts under a corporate umbrella through this Network in which the prestigious institutions in Turkey are founders.

Along with the development and growing interest for the integrated reporting in Turkey, researches in this field for creation of the necessary strategies and road maps have become crucial as well. In line with this requirement, we conducted this all-purpose research to determine the current status and potential development in Turkey regarding the integrated reporting. In this research, we intended to refer the entire stakeholders to comprehensively put forth the perceptions and expectations with regard to the integrated reporting.

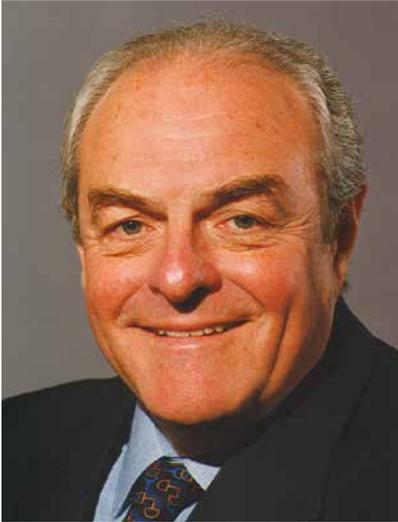
The research was carried out by Yildiz Technical University, Center for Finance Corporate Governance and Sustainability (CFGS) in cooperation with Association of Chartered Certified Accountants (ACCA), KPMG Turkey and supported by Integrated Reporting Turkey Network (ERTA). Assoc. Prof. Arzu Özsözgün Çalışkan, Assoc. Prof. Emel Esen and Assoc. Prof. Özlem Kutlu Furtuna were involved in this comprehensive research team managed by my side.

I would like to thank the executives from ACCA and KPMG Turkey, who support us to conduct the research and the corporate executives, industry professionals and academicians of great value who set aside time for the meetings for their contributions.

I wish the research results steer shaping the future strategies on the integrated reporting in Turkey, create primary resource for the academy and other researches, and become beneficial to all stakeholders by contributing to the development of integrated thinking and reporting in Turkey.

Istanbul, 2019

# Preface



**Prof. Mervyn King SC**

Chairman Emeritus of the  
International Integrated Reporting  
Council

The board of directors of a company have a duty of accountability. To be accountable one has to report in an understandable manner.

Over the last few decades the standards for financial and now sustainability reporting have become not only complicated, but are in jargons which are incomprehensible to the average user.

Likewise the user would have great difficulty in deciding what are the material matters in these two reports to enable them to make an informed assessment about the long term health of the company. The most informed body to make decisions in regard to materiality is the board of directors. In the architecture of a company the board sits at the apex. The board thinks, management does.

A board has to know and understand the legitimate and reasonable needs, interests and expectations of the stakeholder groupings pertinent to the business of the company. The relationships with these stakeholders and the resources used by the company in making its product or rendering its service are integrated.

It is the collective mind of the board that is the correct entity to decide what is material in the financial and sustainability reports, materiality being how the company, in making its money, affects or impacts on the three critical dimensions for sustainable development, namely the economy, society and the environment.

It would be fanciful to think that companies operate on a basis that the relationships with its stakeholders and the resources used by it are in silos. They are integrated and consequently the collective mind of the board needs to adopt integrated thinking.

The revolutionary immensity of integrated reporting lies in integrated thinking. There has to be a change in mindset by the board to think about the sources of value creation or the capitals, as referred to in the International Integrated Reporting Council's Framework, and the relationships with its stakeholders in developing its business model and strategy. Strategically the board should decide how the company will enhance the positive impacts on those three critical dimensions and eradicate or ameliorate the negative impacts.

In explaining this it has to be done in clear, concise and understandable language so that the user can make an informed assessment that this company will in all probability continue to create value in a sustainable manner. In other words, there must not be a focus on any particular stakeholder or making decisions in the interests of any particular stakeholder but the collective mind of the board must make decisions in the best long term health of the company.

The framework of the IIRC sets out general principles and content elements which guides the board to explain in clear, concise and understandable language how the financial has impacted on the non-financial or intangible assets and vice versa.

There is general acceptance around the world that a board that merely reports the financials, according to whatever standard is applicable in any particular country, is not discharging its duty of accountability. Similarly, it follows as a matter of logic if only a sustainability report was done, assuming that the financial report is not mandatory, it would be meaningless without numbers.

Equally it is not informative to do a financial report according to international financial reporting standards and a separate sustainability report according to the Global Reporting Initiative standards. Companies do not operate on a basis of these critical resources being in silos. They are in fact integrated in how the company makes its money.

Prof Guler Aras and her team need to be congratulated for the research done and for leading the charge in Turkey for companies to take part in the revolutionary immensity of integrated thinking and to do integrated reports so that the average user can make an informed assessment about the long term health of a company.

A handwritten signature in blue ink, reading "Mervyn King". The signature is written in a cursive, flowing style.



# Preface



**Helen Brand OBE**

ACCA Chief Executive

As a long-term supporter of, and advocate for, integrated reporting, I welcome this important report which sheds light on the state of its adoption in Turkey.

Through interviews with the people who will shape the future of integrated reporting in Turkey – including senior business executives, investors, regulators and academics – the report lays the groundwork, for the first time, for a roadmap to widespread integrated reporting adoption in the country.

It's heartening to see that there is already a high level of awareness, particularly among regulators, of the principles of integrated reporting. However, the report also highlights some important barriers which need to be overcome.

Gaining support from the investor community is a challenge that is perhaps not unique to Turkey. And in order for investors to demand integrated reports, it is crucial to have integrated reports which are reliable, authentic, and strategically-focused. This requires, perhaps, a wider change in corporate culture and governance. Again, this challenge is shared by companies around the world.

Integrated reporting is not an end in itself but a means of developing better and more coherent leadership and governance and reaching the all-important goal of integrated thinking. To get there, we need to continue to share knowledge and best practice, but we need to especially focus on educating the next generation of integrated reporting champions. This is what ACCA is committed to do, preparing our future members to be the ethical and forward-looking professional accountants that the world needs.

I wish our Turkish integrated reporting colleagues every success in implementing a roadmap to further integrated reporting in Turkey. I look forward to the next steps on our shared journey toward better reporting, and better decision-making.

A handwritten signature in black ink, reading "Helen Brand". The signature is written in a cursive style with a large initial 'H'.



# Preface

## Developments in Corporate Reporting



**Murat Alsan**

KPMG Turkey  
Chairman



**Şirin Soysal**

KPMG Türkiye  
Audit Assurance and Sustainability  
Partner

Reporting styles of companies around the world are changing radically. Over the years, corporate reporting practices have evolved with stakeholder expectations. Increasingly, investors have seen more disclosure does not end up with better reporting. The information in annual reports is often insufficient to help investors accurately assess the value of a company. In the short term, corporate financial reports often focuses on financial figures and does not meet the needs of investors on a long-term horizon. Investors are now investing in “value” term and good companies need more than numbers to explain themselves to their stakeholders. Therefore, these investors increasingly began to demand non-financial information in corporate reports.

Nowadays, the value of a company is managed by financial and non-financial (environmental, social and governance) performance. Investors have become increasingly aware of how global issues can affect a company in the future. If companies want to successfully deal with these risks and the opportunities that will arise when working on them and create a sustainable system; they need to take a long-term journey. These expectations led to the beginning of the concept of “integrated reporting”.

The integrated reporting framework developed by the International Integrated Reporting Council (“IIRC”) aims to provide greater transparency for performance and value of companies. The Integrated Reporting Framework (“IR”) aims to provide a company with tools to create value for its stakeholders through six capitals: natural, human, manufactured, intellectual, financial and social and relations. It promotes a future-oriented perspective and integrated thinking through its guiding principles and content elements. It is a brief and concise communication about how the company uses its resources to create value for its stakeholders in the short, medium and long term.

As revealed in this research; as integrated reporting experience already continues in Turkey, it continues to be an area of application that is still under development. In particular, the research reflects both the level of awareness and the perceptions of market participants about IR as a form of corporate reporting that appears to meet the information needs of stakeholders. In the study; the participants with low level of knowledge expressed their interest in obtaining more information about the integrated report. This implies thatus as KPMG an educational role as an accredited integrated report training partner certified by IIRC.

Creating an integrated report is an effort that requires everyone involved in the organization to be involved in reflecting how the company provides the desired value to create a more sustainable world. An important time and investment is required to implement integrated reporting; but there are also signs that early practitioners are making progress. Therefore, corporate leaders and board of companies should play a central role in encouraging integrated reports. The road ahead is both promising and difficult.

As KPMG, we always proceed with our purpose “Inspire Confidence, Empower Change”. These developments bring both new opportunities and new risks for companies. It is an open opportunity for companies to experiment and innovate and discover possible benefits. Our mission as KPMG, together with my colleagues in our international network, is to provide solutions and guide you as a trusted partner throughout your long-term value creation journey.

Our another mission as KPMG is to work with think tanks to encourage the effective application of integrated reporting and work with regulators to promote integrated reporting. I hope this research will help everyone involved in integrated thinking.

# Executive Summary

The financial crises experienced in recent years have made it more necessary to act in a transparent, fair, accountable and responsible manner in respect of the communications between businesses and stakeholders. After these developments, it is not enough for companies to report only their financial performance, and it is expected that they will explain how they create an added value for all their stakeholders and even for the society and environment that they live in. With gaining importance of producing specialized knowledge accommodating financial and non-financial information together and bringing it along with stakeholders, new reporting practices have also come into the agenda. The new format proposed at this point is “integrated reporting”, which results in a business model based on an “integrated thinking”. Integrated reporting, which has emerged as a way of transferring the value created by institutions to their stakeholders from a holistic and strategic point of view in the shortest, transparent and clearest manner, has gone beyond combining financial and sustainability reports and has become a reporting method used in many countries today. The Integrated Reporting that has been started to be implemented across the globe with the decision after the Rio+20 and achieving a considerable development in Turkey is the subject matter of this Project.

The Integrated Reporting subject started to be studied in Turkey in cooperation with an institution of the IIRC in 2010. It gained momentum upon the acceptance of the project presented to The Coordination Council for the Improvement of Investment Environment through the TUSIAD in 2013 and a concrete progression was achieved afterwards. It was decided to establish Integrated Reporting Turkey Network (ERTA) in 2015 in order to direct the development in this field, generalize Integrated Thinking and Integrated Reporting approach throughout all organizations in Turkey, raise awareness and support the implementations accordingly. Efforts shown in this field moved to a corporate structure thanks to this Network consisting of the prestigious institutions in Turkey (Business Council for Sustainable Development Turkey (BCSD Turkey), Corporate Governance Association of Turkey, Global Compact, Arguden Governance Academy, IIRC Turkey Ambassador, two pilot companies and one independent member), besides Borsa Istanbul and TÜSIAD.

This study carried out in cooperation with ACCA, CFGS and KPMG Turkey aims to reveal views of Turkish business world regarding the integrated reporting, the current corporate reporting practices, and the future expectations and orientations of the companies in this regard. The research includes the opinions from all the current and potential groups of stakeholders regarding the integrated reporting in Turkey and extensively examines and reports the perceptions and expectations of the stakeholders. The research is the first study in Turkey having the ability to pioneer the creation of a corporate reporting strategy, policy and road map in this area.

The study was carried out along with a large group of participants, responsible for the implementation of the fundamental strategies and policies of the corporations, including senior executives, institutional investors, consultancy firms for the preparation of integrated report, non-governmental organizations, implementing agencies and academicians. The research questions were structured in such a way to help to determine the opinions and expectations of the relevant stakeholders taking into account the qualification and requirement of each stakeholder, with regard to the preparation of the integrated report, the difficulties they may encounter in preparing the report, the issues to be supported for reporting and their awareness of the results of the reporting,

The research results exhibit that integrated reporting is on the agenda of the senior executives of the top management of the companies. However, the results reveal that companies need to be informed more about the issue and that integrated reporting practices are expected to become more widespread through various incentives to be provided. Especially for publicly held companies, BIST and relevant regulatory authorities are expected to make promotional and informative studies with respect to integrated reporting for companies that are in their domains.

It is crucial that institutional investors, which are the main users of the corporate reports, should be informed of the integrated reporting for dissemination the reporting format. The research results indicate that institutional investors need to increase their awareness and knowledge in this field.

It is observed that the academicians who form another stakeholder group of the study follow this issue especially from academic publications. Companies and institutional investors are expected to develop projects that they may work together with ERTA to increase the awareness and knowledge with regard to integrated reporting. It is important to create different strategies and solutions for all stakeholders in terms of the integrated reporting with the projects to be developed. In order to disseminate integrated reporting, it is also necessary to increase the awareness and knowledge of the companies’ stakeholders about corporate reporting. For this purpose, different strategies/solutions should be created for all stakeholders participating in this research.

In this context, the topics and recommendations of importance are below;

- A mechanism to ensure the reliability of the information in the integrated reporting and audits of integrated reports are significant and needs solution.
- Integrated reporting practices will provide significant benefits for providing qualified information that will be the basis for the investment decisions of publicly held companies in the emerging markets where investor confidence is important. There are important expectations from the regulatory authorities (Capital Markets Board of Turkey, Banking Regulation and Supervision Agency, Public Oversight Accounting and Auditing Standards Authority) in this framework. In this context, the performance of arrangements to encourage institutions and the establishment of incentive mechanisms by BIST will support the development in this area.
- It is recommended that ERTA, which is main sources that the participants have first heard about the concept of integrated report and which is also expected to give support at the report preparation stage, should set up projects, hold promotional and informative meetings and organize trainings for the companies in order to increase the awareness of the companies on the issue and disseminate the integrated reporting.
- The inclusion of integrated thinking and value creation topics in the relevant undergraduate and graduate courses in universities will especially contribute to increasing the number of qualified employees required for the preparation of these reports and the creating of stakeholder knowledge having the ability to evaluate the information contained in these reports.

- For achieving reliable progress in this regard, it is necessary to find firms that will provide training and qualified consultancy services regarding the integrated thinking and integrated reporting that the companies find difficult to prepare.

- Mechanisms that will contribute companies' recognition of their intra-organizational value creation processes and for more efficient use of these processes should be developed. In particular, it is important that senior executives of the companies have an awareness of integrated thinking and integrated business and specific trainings need to be provided for this purpose.

- The research results also revealed the need to increase the awareness of institutional investors on the issue.

The research results are of great importance in creating the future strategy and road map regarding the integrated reporting in Turkey. The most important output of this study will be the contributions made to public decision makers, companies, NGOs and all relevant institutions, especially regulatory bodies and implementing agencies.

### **Professor Güler ARAS**

Yıldız Technical University  
Founding Director, Center for Finance Corporate Governance and Sustainability (CFGS),  
Founding Chair, Integrated Reporting Turkey Network (ERTA)

# Section 1

Development of the  
Integrated Reporting in Turkey

Considering the regulations on financial reporting practices in Turkey, certain differences according to the qualifications of the companies are observed. Until the amendments made in the Turkish Commercial Code in 2012, the use of Turkish Financial Reporting Standards (TFRS) in preparation of consolidated financial statements has only been applied by the companies subject to the Capital Market Board from 2005 and on, by financial institutions subject to the Banking Regulation and Supervision Agency from 2006 and on and by insurance and pension companies subject to the Undersecretariat of Treasury from 2008 and on. Notwithstanding, during the renewal phase of the Turkish Commercial Code, an independent audit of all other non-public companies and the requirement for creation of the statutory book records according to the standards have come to the agenda.

However, the obligation to make statutory book records according to the standards has been annulled before the Code was put into force and then it has been decided that for the companies that will be subject to an independent audit will be determined by the Council of Ministers. Due to the change in the Turkish Commercial Code, the companies that will be subject to an independent audit in 2013 have been determined with the decision by the Council of Ministers dated 19/12/2012 and numbered 2012/4213. For such criteria, companies' total assets, net sales revenue and number of employees are taken as basis. The list No. I included in the annex to the decision of the Council of Ministers has defined the public interest entities (KAYİK) in general and the companies in this scope has been subject to an independent audit without stipulating any other conditions. Accordingly, publicly held companies, banks, insurance, reinsurance and pension companies, factoring companies, financing companies, leasing companies, asset management companies, pension funds, are the issuers and capital market institutions are within the KAYİK.

Following this, the scope of TFRS implementation by the Public Oversight Authority (POA) is for companies that is subject to audit in accordance with the Decree of the Council of Ministers in accordance with the Turkish Commercial Code. Then, in accordance with the decision taken in August 2014 by the POA, TMS implementation is obligatory for the companies subject to the regulations of the Capital Markets Board, BRSA and Undersecretariat of Treasury. Other companies will apply TMS if they wish, and if they do not use this preference, they will continue to implement the current applicable legislation. For companies that do not prefer and are not obliged to apply TMS, it has been decided to apply the Financial Reporting Standard for Large and Medium Enterprises (BOBİ FRS) starting from 1/1/2018.

Since there is not yet a TMS published by POA for companies not included in the scope of the TFRS and the BOBİ FRS, such parties should apply the legislation in force when preparing their financial statements. In other words, such enterprises are subject to the General Communiqué on Accounting System Implementation (MSUGT). However; it has also been stipulated with the decision of the last TMS Implementation Scope taken by the POA in 2018 that the mentioned enterprises may optionally implement the TFRSs or the BOBİ FRS in the preparation of the financial statements.

The Sustainability Index generated by the BIST especially in terms of the development of non-financial reporting in Turkey is crucial for the publicly held companies. The Index started to be calculated and published as price and proceeds starting from 4 November 2014. The purpose of BIST Sustainability Index is to create an index where companies traded in Istanbul Stock Exchange with top level sustainability performances will appear, and to increase the understanding, knowledge and practices in relation to sustainability issues in Turkey and especially among the Istanbul Stock Exchange companies. In order for the shares of companies to be included in Index, there is no requirement for publishing a sustainability report. However, the companies should exceed the threshold values in "Index Selection Criteria". As of end of September 2018, there are 44 companies in the Index.

The number of organizations in the framework of preparing voluntarily sustainability reports is increasing rapidly in Turkey. While 18 organizations prepared their sustainability reports in 2010, the number of the organizations preparing reports by the end of September 2018 was 138 and the number of reports reached 402 (GRI, 2018).



The development of the integrated reporting in Turkey concretely began with the adoption of a project that deals with preparing a guide book which was submitted to The Coordination Council for the Improvement of Investment Environment in 2013 and would lead the companies for preparation of the corporate reports according to the integrated reporting format and raising awareness through trainings. The book titled “New Era in the Corporate Reporting: Integrated Reporting” which formed the output of the project and was published by the TÜSİAD has been published as the first guidebook in this regard.

In order to disseminate the Integrated Thinking and Integrated Reporting approach throughout all organizations in Turkey, raise awareness and support implementations accordingly, working under a corporate infrastructure in Turkey is realized with establishment of the Integrated Reporting Turkey Network (ERTA). As a founding chair and under the independent founding membership of Prof. Güler Aras, the ERTA has been established by the TÜSİAD, Corporate Governance Association of Turkey, Borsa Istanbul, IIRC Turkey Ambassador, Global Compact Network Turkey, Business Council for Sustainable Development Turkey (BCSD Turkey), Garanti Bank and Çimsa.

On 13 November 2017, International Integrated Reporting Council (IIRC) and Borsa Istanbul have signed a cooperation agreement for the dissemination of integrated reporting across Turkey and hosted the gong ceremony and held experience-sharing meeting with the companies which prepared integrated reports. The BIST has become the first European Stock Exchange which prepared integrated report along with the Japanese Stock Exchange by setting an example for the companies and stock exchanges in Turkey and in the world. With the protocol signed by and between the ERTA and the IIRC on 18 September 2018, it has been formalized that the ERTA has become an international partner of the IIRC.

The integrated reporting preparing enterprises in Turkey include mainly the banking sector and real sector companies, one governmental body and one NGO. The results of the study show that the number of companies planning to prepare integrated reporting is quite high. This situation is also important in terms of companies to lead their sectors.

# Section 2

Integrated Reporting  
Current Situation

## Purpose of the Research

The number of companies preparing integrated reports is increasing day by day across the globe. Due to the challenging competition in the business world, the integrated report provides a more holistic picture of the ability of companies to continue their operations by allowing them to report the value created more systematically and comprehensively through the resources they use to continue their operations.

The companies operating in Turkey and their stakeholders that are closely following the developments across the globe are also pursuing developments in the corporate reporting field. Within this framework, the determination of the infrastructure required for the creation of conscious strategies regarding the integrated reporting in Turkey and close follow up of expectations and developments are of great importance. This research emerged from this need.

The objective of the study titled “Integrated Reporting in Turkey: Current Situation, Stakeholders’ Perceptions and Expectations” is to reveal the current situation in Turkey through determination of the interests and perceptions of the companies and stakeholders with regard to this issue that develops rapidly in the world and also attracts a considerable attention in Turkey in the recent periods. In addition, it is intended to reveal the perceptions and expectations of the stakeholder group consisting of the institutional investors, regulatory and implementing agencies, consultancy firms for the preparation of integrated report, the relevant NGOs and academicians in relation to integrated reporting, in association with companies’ to such perceptions and expectations. Thus, it is intended to provide a basis which will allow for the future strategies to be shaped with respect to the integrated reporting.

## Research Methodology

Companies, institutional investors, regulatory and implementing agencies, consultancy firms for the preparation of the integrated report, the relevant NGOs and academicians participated in this research. The data collected through face-to-face questions were examined and analyzed.

## Preparation of the Research Questions

Separate questionnaires were formed with regard to the integrated reporting for the companies, institutional investors, regulatory and implementing agencies, consultancy firms for the preparation of the integrated report, the relevant NGOs and academicians. The questionnaires included questions varying according to the knowledge level of the stakeholder groups regarding the integrated reporting, as well as common questions for each stakeholder group. The research questions were structured under the following headings.

- Views on the preparation of integrated reports
- Information sources for the integrated reporting
- Participants’ perceptions about the preparation of an integrated report
- Views on the integrated report framework
- Fields and parties expected to support the integrated report
- Challenges that may be encountered in the integrated report preparation
- Benefits of the integrated report

## Data Collection and Analysis

A total of 163 participants responded to the research questions. Data were collected from face-to-face conversations with 84 senior executives responsible for the implementation of the fundamental strategies and policies of the companies, 17 senior executives from the institutional investors, 11 consultants who provide consultancy services for the preparation of integrated reports, 9 managers from the relevant NGOs, 10 participants from the regulatory and implementing agencies and 32 academicians, and from phone calls with few participants.

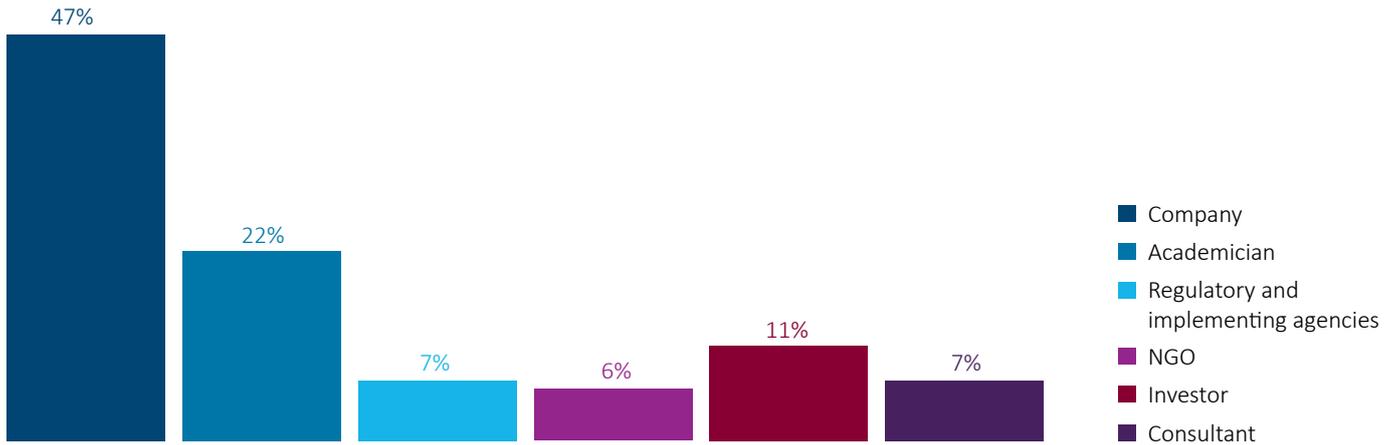


# Section 3

## Research Findings

## Participant Profile

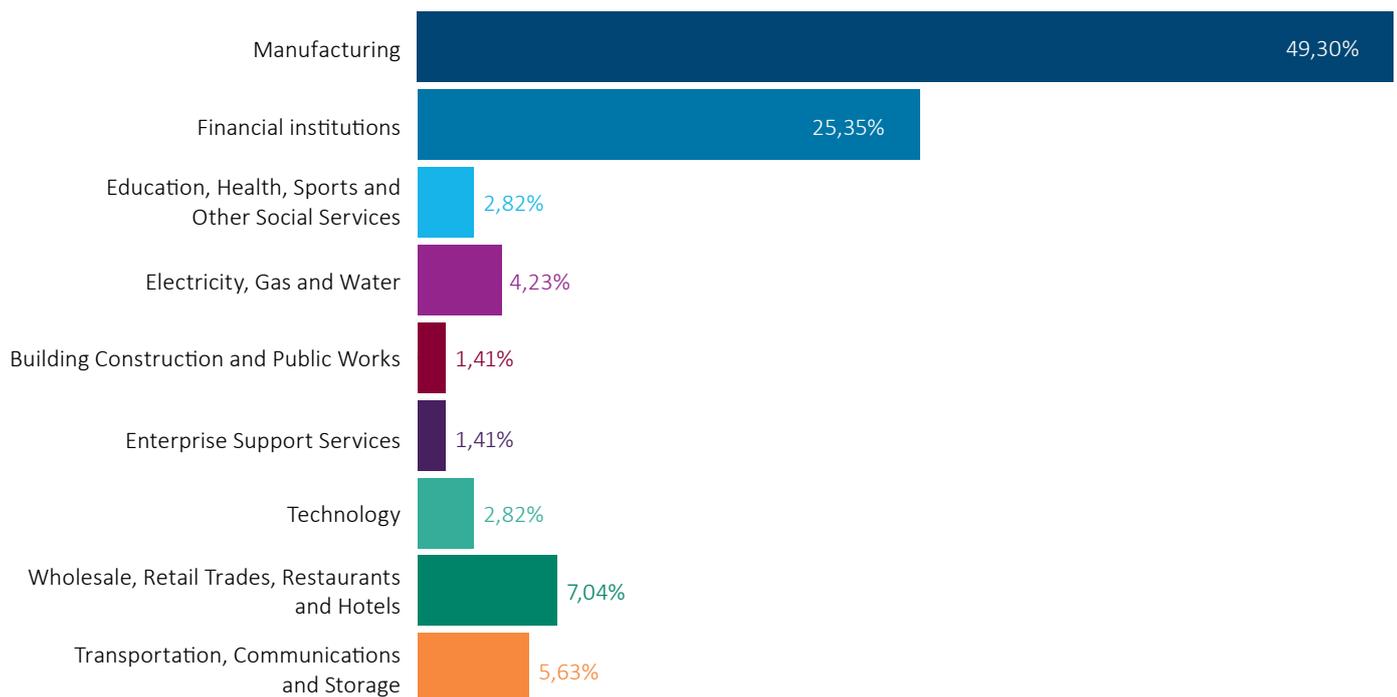
The majority of the research participants (47%) is senior executives of companies. The institutions and stakeholders that are especially interested in and those that have a high potential of being interested in the integrated reporting were targeted to include in the scope of research. Accordingly, 22% of the participants were academicians, 11% were institutional investors, 7% were regulatory and implementing agencies, 7% were consultants on the IR preparation, and 6% were stakeholder groups from non-governmental organizations.



## Company Profiles

71 companies and 84 senior executives from 9 different sectors participated in the research. The companies operating in the manufacturing industry (49.30%) constitute the highest share among the participants. The second rank is held by the companies operating in the finance sector (25.35%).

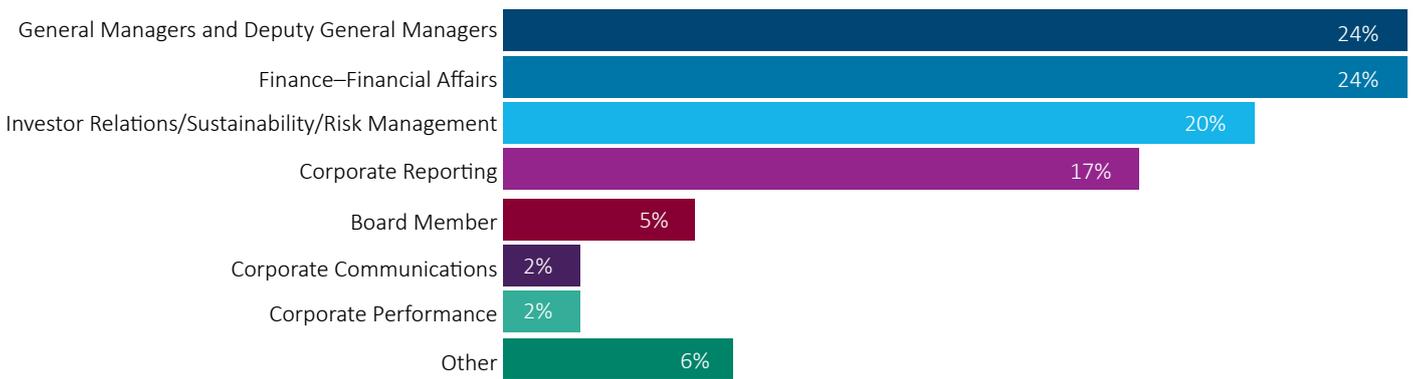
The shares of 53 companies participating in the research are traded at the BIST.



## Profile of Company Executives

When the profile of the company executives participating in the research is reviewed, it is seen that 24% are composed of general managers and the deputy general managers, while 5% are composed of the board members. 24% of the participants are responsible for finance and financial affairs, 20% are responsible for investor relations, sustainability and risk management, 17% are responsible for the corporate reporting, 2% are responsible for the corporate communications and 1% is responsible for the corporate performance areas. As the organizational structure of each company is different, the titles corresponding to the duties and responsibilities differ as well.

In the reporting of the research results, a classification has been made by considering the common elements of the company executives' titles.

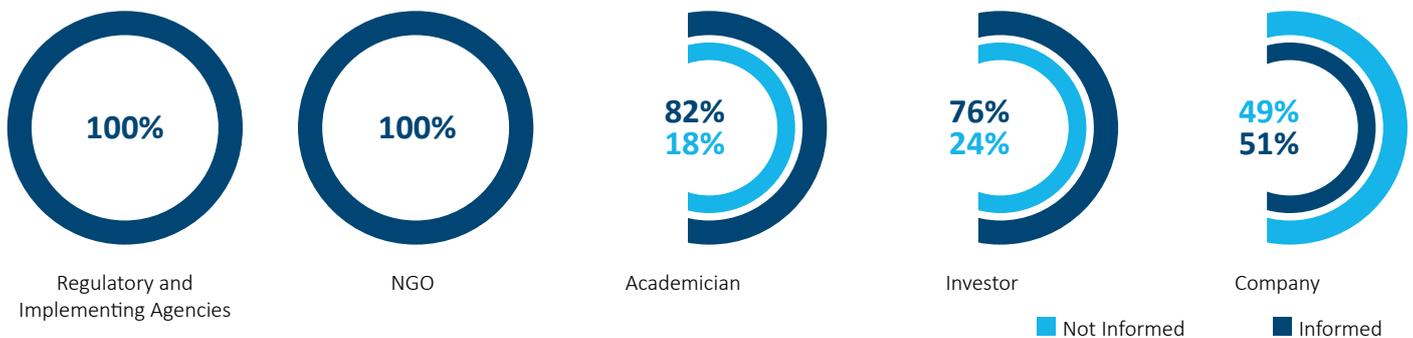


## Knowledge Level Regarding the Integrated Reporting

Considering the knowledge levels of the stakeholders participating in the study on the integrated reporting, it is seen that all of the regulatory and implementing agencies and the NGOs are informed about the integrated reporting. On the contrary, it is observed that only 24% of the institutional investors are informed about reporting.

However, when the institutional investors were asked about the factors they consider when investing in, they stated that the future strategy of the company to be invested is important for them. Within this framework, the integrated reporting will be able to meet the said information needs of investors with the information provided by the companies for their future strategy.

It is seen that 51% of the companies have knowledge about the integrated reporting.



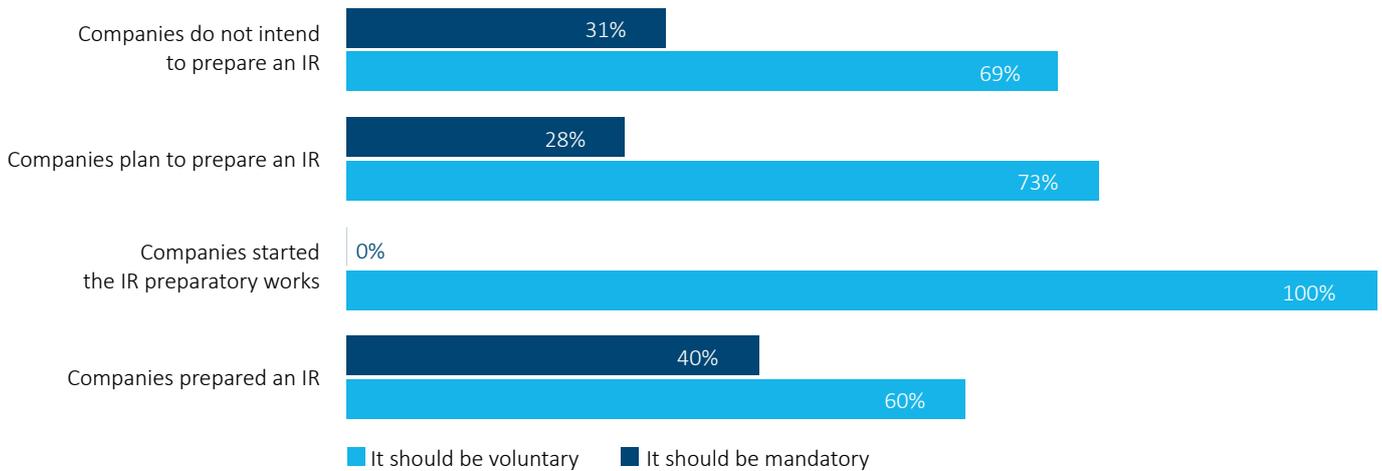
## Views on the Preparation of Integrated Reports

According to 73% of the research participants, the integrated report in Turkey should be prepared on a voluntary basis. A significant percentage of participants with 27% want it to be mandatory.



While there was no significant difference between companies in terms of views on the preparation of the IR among the groups that intend to prepare and those who do not intend to prepare IR, all the companies that started IR preparatory works stated that the reporting practice should be voluntary.

When compared to the group that do not prepare an IR, it was determined that the companies preparing an IR were more likely to agree with the view that the report should be mandatory.



## The First-Heard Source of Integrated Reporting Concept

Analyzing the replies to the question of from what sources the research participants heard the IR concept for the first time, it is seen that the ERTA , IIRC, TÜSİAD’s publication on the integrated reporting, meetings held by BIST, IR launch of the reporting companies and academic publications have come into prominence.

The ERTA, IIRC and TÜSİAD’s publication on the integrated reporting is placed near the top among the sources that companies first heard about the IR concept. However, there are also company executives who have heard of this concept from this research carried out for the first time.

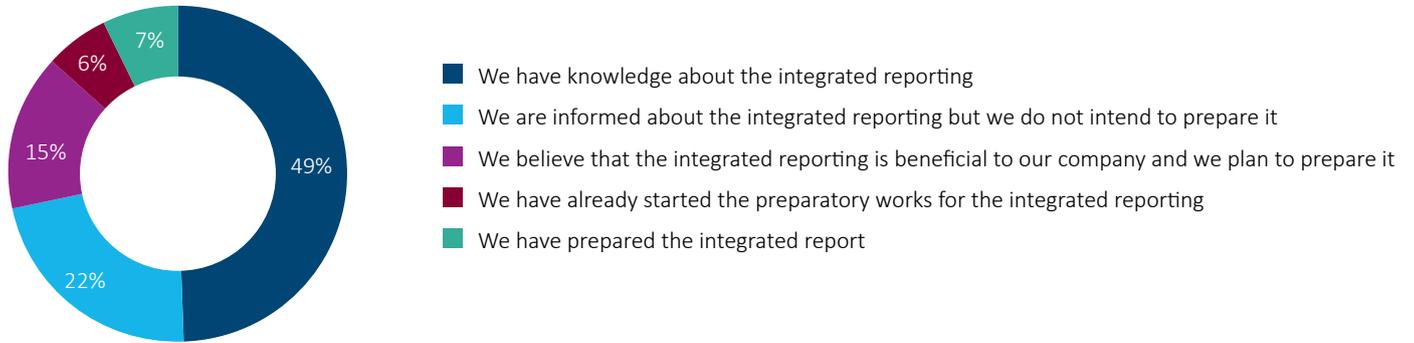
It is observed that academicians heard the concept of the IR for the first time from academic publications related to the issue.

For consulting firms, IIRC, the publications of the independent audit firms and the information given by their foreign partner network played a key role in the recognition of the IR concept by these parties.

Regulatory and implementing agencies stated that they first heard the IR concept from the ERTA and the Capital Markets Board of Turkey (CMB). TÜSİAD’s publication on the integrated reporting as the source from which the NGOs are first heard of the IR concept is on the first rank. On the other hand, institutional investors stated that they first heard the concept of IR from this research.

## Current Status of Companies in Preparing an IR

49% of the companies participating in the research has no knowledge about the integrated reporting. When the current status of companies which are informed of the IR preparation is examined, it is determined that 15% plans to prepare an IR, 6% already started preparatory works on IR, 7% have prepared IR, and 22% are informed of IR but do not intend to prepare it.

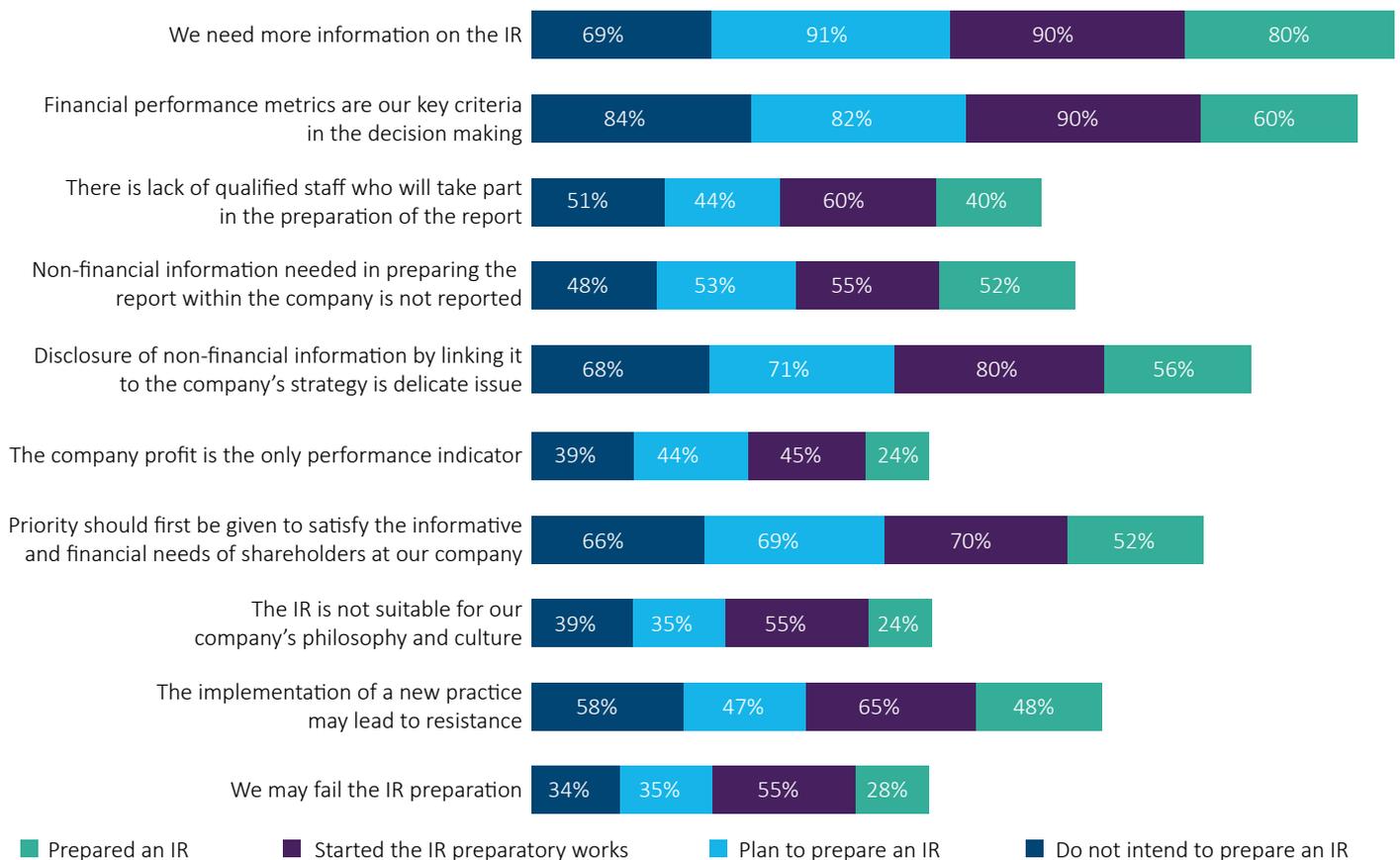


## Perception about the Integrated Reporting

The results of the research show that most of the companies that prepare, start to prepare, plan to prepare and do not plan to prepare an integrated report need more information about the IR.

Financial performance metrics maintain their position as the key criterion in the decision making of the companies, however, this rate is lower in companies preparing an IR. In addition, companies that do not intend to prepare an IR perceive the disclosure of non-financial information by linking it to the company's strategy as sensitive information and believe that priority should first be given to the informative and financial needs of the stakeholders. Furthermore, the related companies need qualified staff to take part in preparing the report.

When the views of the companies that prepare an IR are examined, it is seen that there are concerns about reporting at the beginning but they do not have any concern about failure during the preparation process.

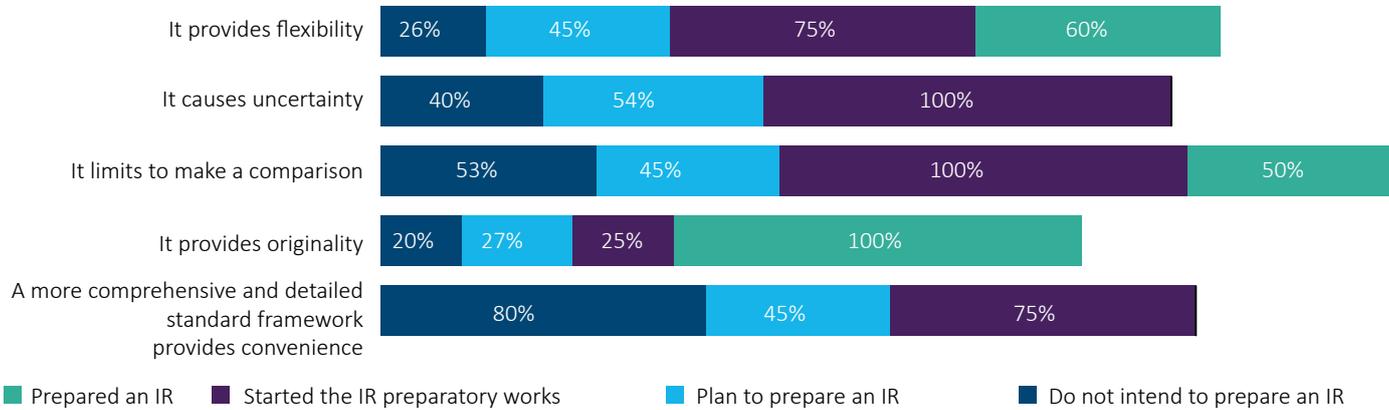


In parallel with the views of the companies, the regulatory and implementing agencies agree that the disclosure of non-financial information linking it to the company’s strategy is sensitive information and that there is a lack of staff to take part in the preparation of the report in the companies.

Consultants within the stakeholder group emphasize that it is very important to obtain support especially from the senior management in preparing IR and reveal concretely the benefits to be obtained from the preparation of an integrated report by the companies. Moreover, the NGOs also state that demand from the senior management is important in the preparation of the IR.

### Views on the Integrated Reporting Framework

Absence of a comprehensive and detailed standard framework for integrated reporting, which is different from financial reporting, creates uncertainty and is perceived as limit to the ability of making comparisons by all the companies participating in the survey and those started IR preparatory works. All the companies preparing an IR see this situation as a feature that provides flexibility. Those who do not intend to prepare a report stated that a more comprehensive and detailed standard framework would provide convenience, and that the current framework limits the ability of comparison and creates uncertainty.



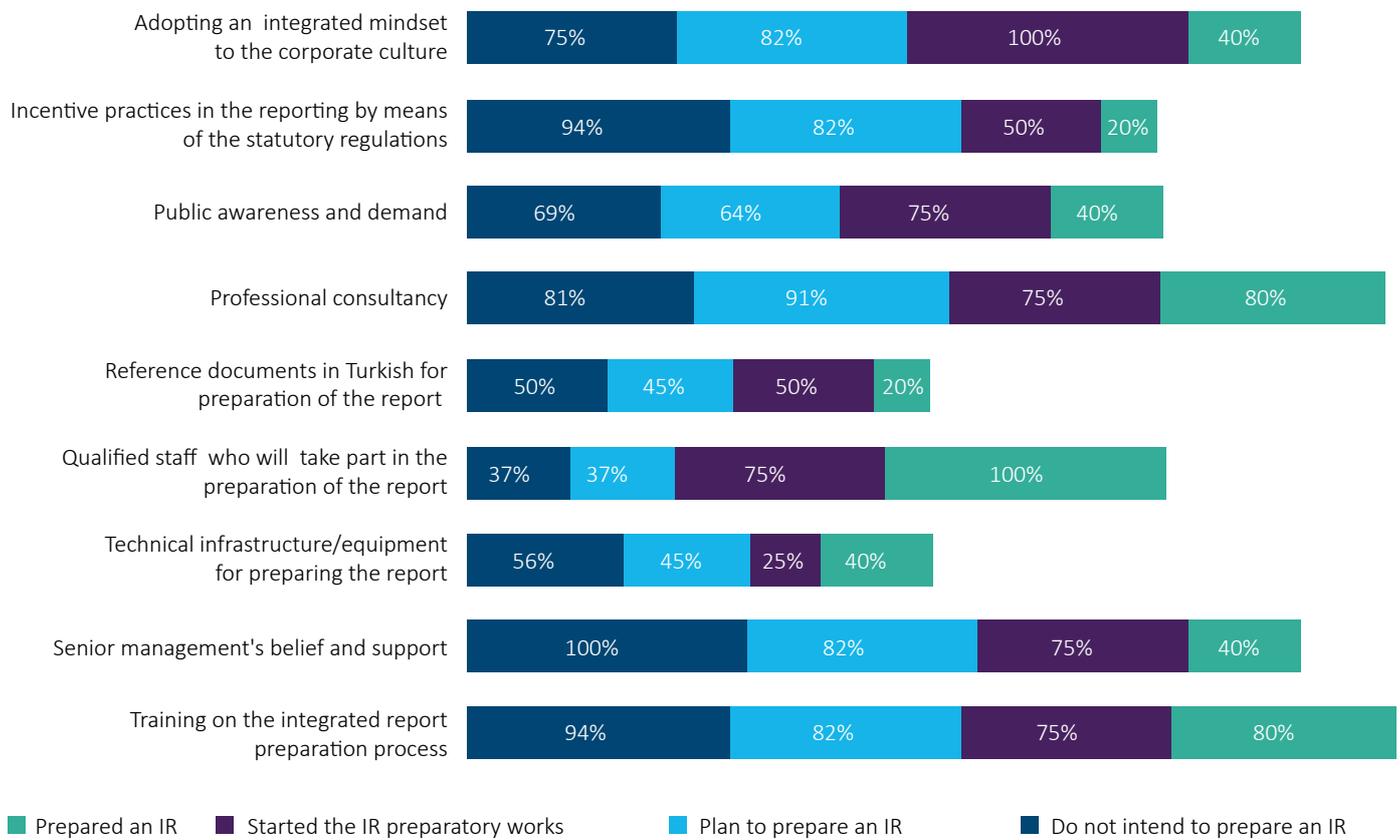
Considering the views of other stakeholders, regulatory and implementing agencies think that the absence of a comprehensive and detailed standard framework on the IR provides flexibility and originality. NGOs, academics and consultants share the same view with the regulatory and implementing agencies on the current status of the framework.

## Fields Expected to Support the Integrated Reporting

Training on the integrated report preparation process, the belief and support of the senior management, and the enforcement of practices encouraging the reporting by means of the statutory regulations are fields that companies, especially who do not intend to prepare an IR, expect to be supported. Companies intend to prepare an IR will need to receive professional consultancy services in addition to the support areas listed above.

The following are the prominent areas where all companies need support:

- Training on the integrated report preparation process,
- Enforcement of practices encouraging the reporting by means of the statutory regulations,
- Professional consultancy,
- Belief and support of the senior management.

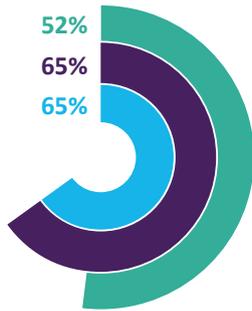


The most important areas where consultancy firms expect support during the IR preparation process are belief and support of the senior management, and the enforcement of practices encouraging the reporting by means of the statutory regulations and public awareness and demand.

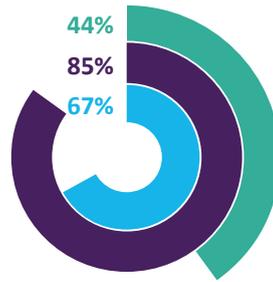
Regulatory and implementing agencies expect support in organizing training on the Integrated Reporting preparation and raising the public awareness. There is also an expectation that CMB will encourage the institutions in this regard and the BIST will implement incentive mechanisms such as listing, etc. NGOs also expect support in organizing various workshops and seminars for raising awareness.

## Challenges in the Process of Integrated Report Preparation

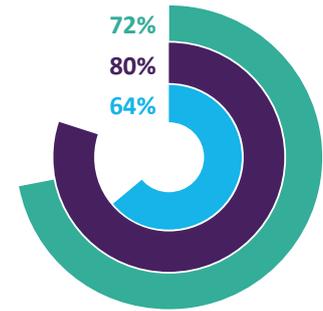
It is seen that the most important difficulties that may be encountered by all companies are how to measure the inputs of non-financial capital and the determination of the probability of occurrence of risks. For companies that started the IR preparatory works, especially determining the scope and contents of the report is considered to be the most important challenge in the process of preparing an integrated report. How to measure opportunities and inputs of non-financial capital elements for those who intend to prepare an IR, and determining the probability of occurrence of risks for the IR preparing companies are seen as the main challenges.



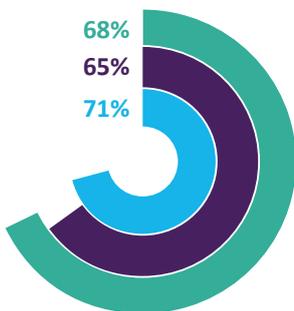
Challenges for the determination of important matters to be included in the report



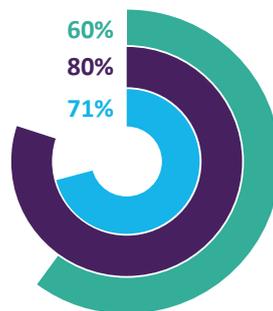
Challenges for the determination of scope and contents of the report



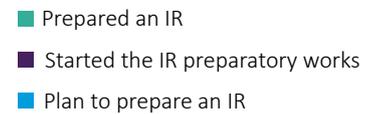
Determination of the probability of occurrence of risks



How to measure opportunities



How to measure non-financial capital inputs



Reviewing the views of the consultants regarding the issue, the main challenges with regard to the IR preparation process are considered as creation of consistent and reliable future insights, drawbacks for information sharing, determination of the appropriate content, strategic objectives and key performance indicators for the strategic focus, and the lack of information systems and processes needed for the reporting.

How to measure the opportunities, determination of which elements should be measured, and the determination of related opportunities for each source of capital are the main challenges asserted by regulatory and implementing agencies in the IR preparation process.

According to academicians, the main challenges in the IR preparation process are how to measure the outputs of non-financial capital elements, structural difficulties in establishing information systems in companies to support reporting principles and its costs and how to measure opportunities.

According to the NGOs, the main challenges are considered as determination of which elements should be measured, how to measure non-financial capital inputs and the issues regarding the data reliability.

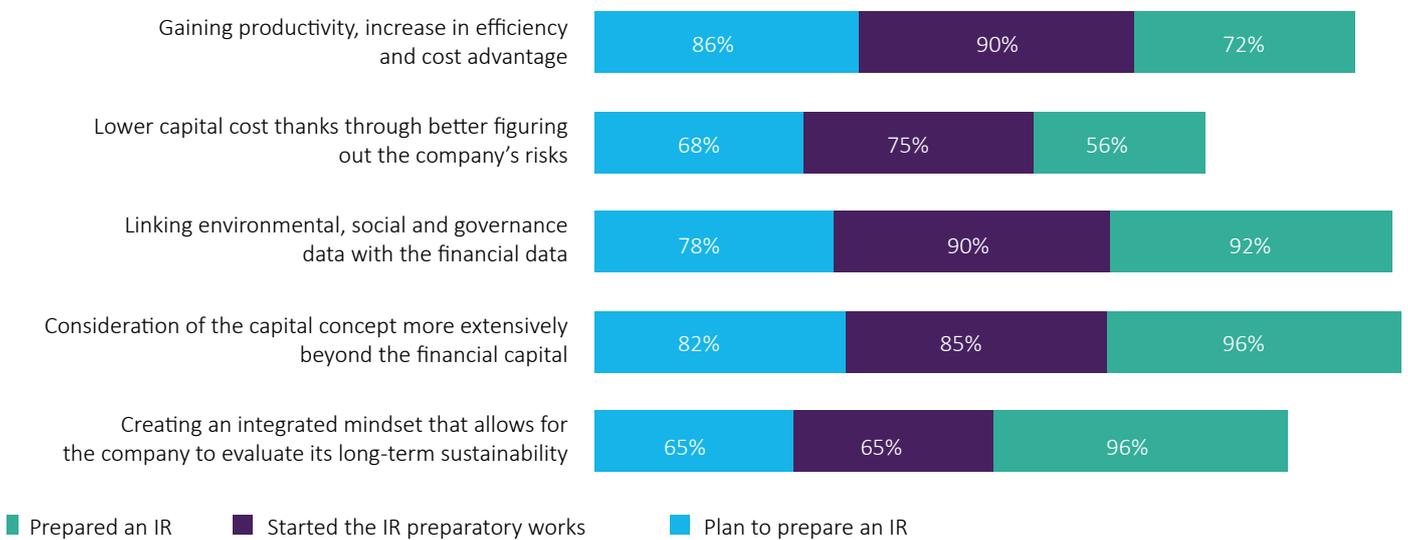
In summary, both companies and stakeholders think IR preparation process is not easy.

## Benefits of Integrated Reporting

When all stakeholder groups are analyzed, the key benefits of integrated reporting will be;

- Creating an integrated thinking
- Comprehensive consideration of the capital concept,
- Linking environmental, social and governance data with financial data.

Looking from the viewpoint of the companies, gaining productivity, increase in efficiency and cost advantage and linking environmental, social and governance data with financial data remain at the forefront among the outstanding benefits for the companies that started the IR preparatory works. The benefits outlined by the companies intend to prepare an IR are to gain productivity, increase in efficiency and cost advantage, and consideration of the capital concept more extensively beyond the financial capital.



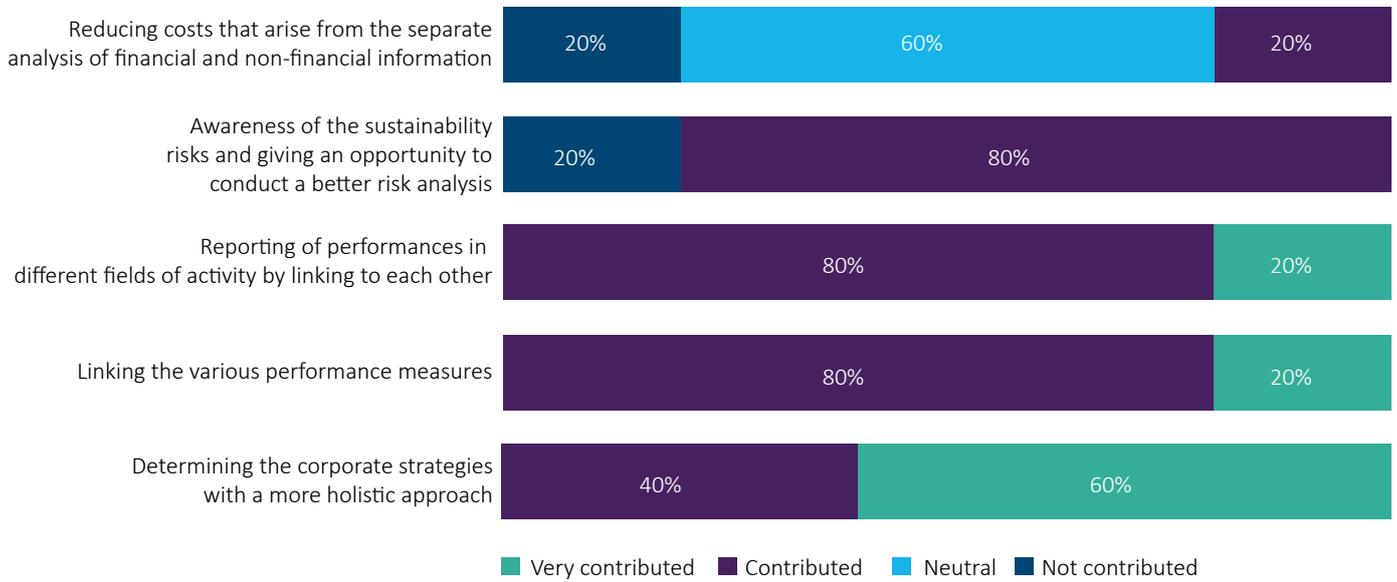
## Benefits of Integrated Report Preparation Process

The most important benefit of the reporting process for the companies preparing an integrated report is the development of stakeholder relations. In addition, these companies have stated that the process contributes to organizations' awareness of the intra-organizational value creation processes and more effective use of these processes as other benefits that the reporting preparation process.



## Benefits of Integrated Report Preparation to the Companies Preparing IR

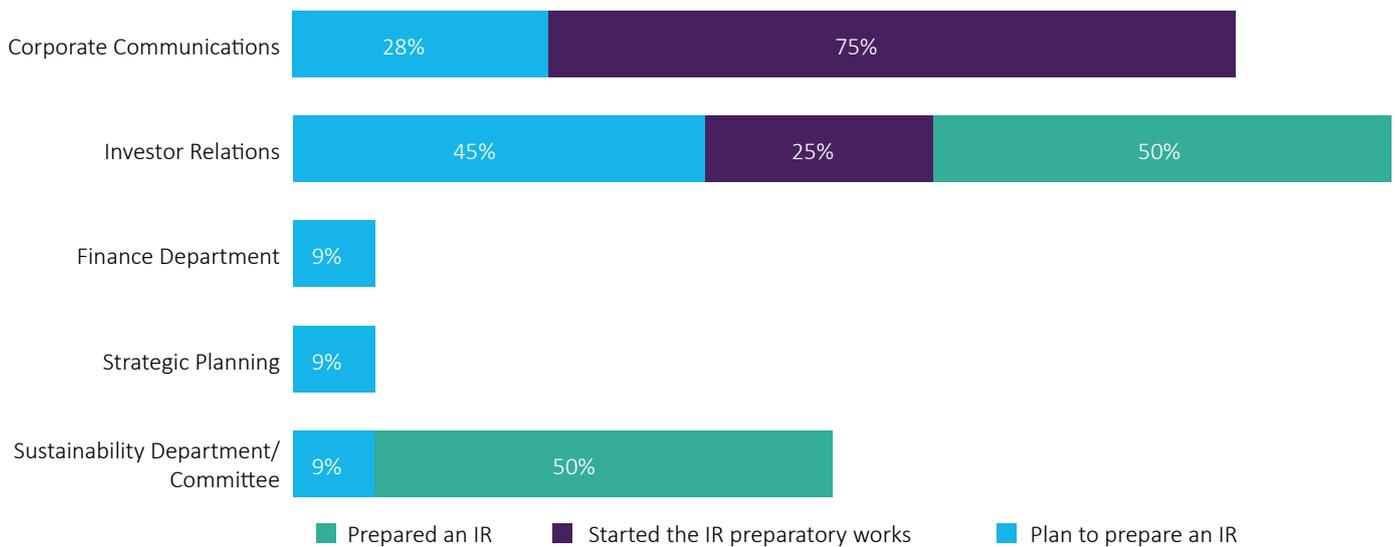
The companies preparing an integrated report have stated that the preparation of the report particularly contributes to the determination of the corporate strategies in a more holistic manner, to linking the performances in different areas with each other and supporting a more forward-looking, long-term perspective rather than short-term plans.



## Departments Coordinating Integrated Report Preparations

When the departments that coordinate the preparation of the companies' integrated reports are examined, it is seen that the corporate communication, sustainability department/committee and investor relations departments come to the forefront.

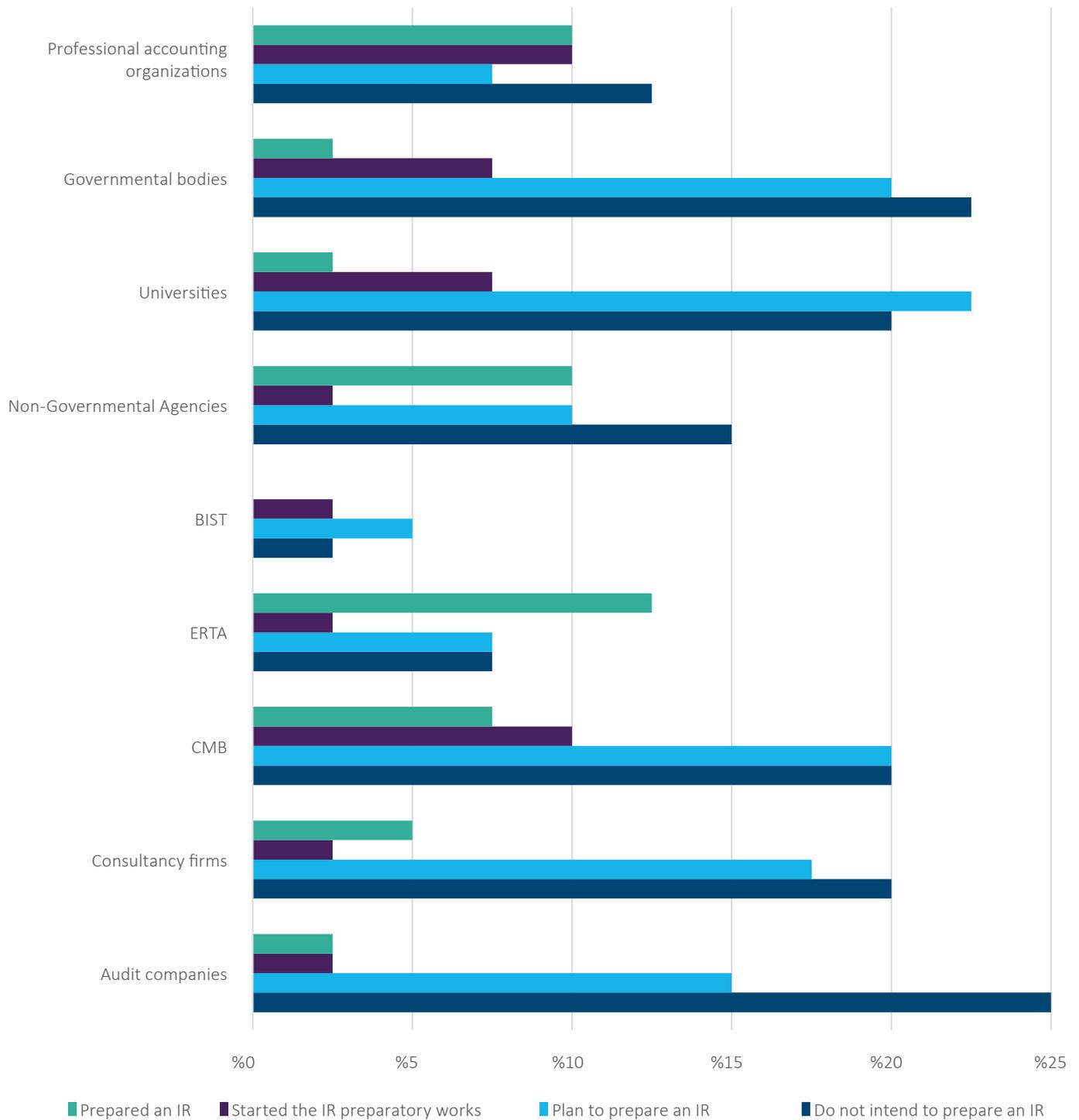
Within companies that started the IR preparatory works, the corporate communications departments especially coordinate the IR preparatory works, whilst sustainability department/committee and investor relations departments coordinate the IR preparatory works in the companies that intend to prepare an IR.



## Institutions Expected to Support the Integrated Reporting

The primary institutions expected to support the integrated reporting are audit companies, CMB, ERTA, governmental bodies, professional accounting organizations and consultancy firms.

The ERTA especially stands out as an association that the companies preparing an IR are waiting for support. On the other hand, the audit companies and governmental bodies are the institutions that are expected to support the integrated reporting by the companies that do not intend to prepare an IR.



# Section 4

Evaluation and  
Recommendations

## Evaluation and Recommendations

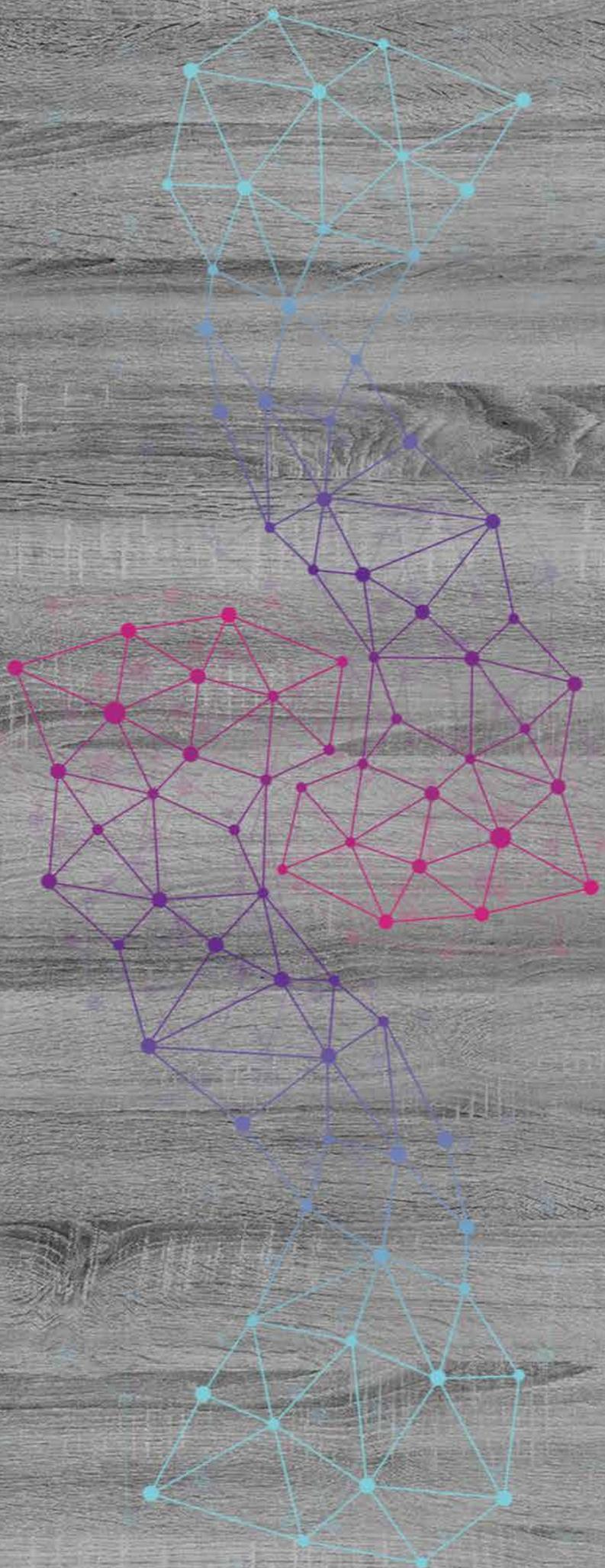
The results of the research reveal that the preparation of integrated reports will make a significant contribution to the creation of an integrated thinking structure in the companies, according to companies and other stakeholders. Furthermore, the results suggest that the parties participating in the research think the integrated report preparation contributes to considering capital concept more comprehensively and linking of environmental, social and governance data and financial data with each other. It is important for all stakeholders involved in the research, including companies, to provide holistic and comprehensive information on operations and results of their companies. With regard to the investment decisions, this information is extremely valuable for the institutional investors who state that the future strategy of the company to be invested is important to them.

Moreover, integrated reporting as expressed by the majority of the participants that it should be prepared on voluntary basis, is also perceived as difficult to prepare. The foremost of these challenges is the determination of the scope and contents of the report for the companies that started the IR preparatory works. Companies also consider that the absence of more comprehensive standard framework for the report causes uncertainty and limits the ability to make comparisons.

It is possible to say that the awareness of companies operating in Turkey with respect to sustainability has rapidly increased

thanks to the BIST sustainability index. It is seen that the companies that give importance to sustainability issues and that make sustainability reporting are more interested in the integrated reporting. Furthermore, the companies preparing the integrated reports have stated that the preparation of the report “contributes to ensuring an awareness of the sustainability risks and gives an opportunity to conduct a better risk analysis, to linking the performances in different areas to each other and supporting a more forward-looking, long-term perspective rather than short-term plans”.

The results of the research show that the number of companies that intend to make an integrated reporting is quite high. In order to increase the number of companies preparing integrated reports, it is also necessary to increase the awareness and knowledge of the stakeholders of the companies regarding the integrated report. For this purpose, creation of different strategies/solutions is recommended for all stakeholders participating in the research.



According to the research results, the following are significant points and recommendations;

- Integrated reporting is a corporate report that is perceived as difficult due to its scope and content. For progress, it is critical to find companies that will provide institutions training and qualified consultancy services with regard to integrated reporting and integrated thinking.
- A mechanism to ensure the reliability of the information contained in the integrated reporting and audits of integrated reports are significant and needs solution.
- Integrated reporting practices will provide significant benefits for providing qualified information that will be the basis for the investment decisions of publicly held companies in the emerging markets where investor confidence is important. The regulatory authorities (CMB, Banking Regulation and Supervision Agency, Public Oversight Accounting and Auditing Standards Authority) should assume significant responsibility in this framework. In this context, the performance of arrangements to encourage institutions and the establishment of incentive mechanisms by BIST will enable the progress in this area.
- It is recommended that ERTA, which is main source that the participants have first heard about the concept of integrated report and which is also expected to give support at the report preparation stage, should set up projects, hold promotional and informative meetings and organize trainings for the companies in order to increase the awareness of the companies in this area and disseminate the integrated reporting.
- Regulatory and implementing agencies need support in integrated thinking and reporting training and raising public awareness.

- The inclusion of integrated thinking and value creation topics in the relevant undergraduate and graduate courses in universities will especially contribute to increasing the number of qualified employees required for the preparation of these reports and the creation of stakeholder knowledge having the ability to evaluate the information contained in these reports.
- Mechanisms that will contribute companies' recognition of their intra-organizational value creation processes and for more efficient use of these processes should be developed. In particular, it is important that senior executives of the companies have an awareness of integrated thinking and integrated business and specific trainings are provided for this purpose.
- It is of great importance in order to meet expectations; it is required to emphasize that integrated reporting has a comprehensive and detailed standard framework.
- The results of the research indicates that use the qualified information in the reporting is important for the investment decisions of institutional investors and portfolio managers. It is critical that ERTA and institutions that regulate the operations of institutional investors and professional organizations carry out joint informative studies and projects.

The research results are expected to be an important reference especially for regulatory and implementing agencies, including the decision-makers in the public sector, companies, NGOs and all the relevant institutions in determining the future strategy and road map regarding the integrated reporting in Turkey and in their actions to be taken in this regard.

## Sectoral Distribution of the Companies Participating in the Evaluation Report



## CFGS

The Center for Finance Corporate Governance and Sustainability (CFGS) was founded with the decision taken in the meeting of Yildiz Technical University Senate on 13.06.2013 and numbered 2013/05 under the lead of Prof. Güler ARAS and upon the publication of the said decision in the Official Gazette dated 01.08.2013 and numbered 28725. CFGS aims to be a solution center that creates added value for all the stakeholders in the fields of finance, corporate governance and sustainability in line with the main objectives of the enterprises. The Center intends to be the main application site for research and implementation projects that will be able to offer solutions related to finance, corporate governance and sustainability in cooperation with academia and business world. The main field of activity of the CFGS are to conduct researches, make publications at national and international level, organize seminars, conferences, symposiums for the future publication; to provide consultancy services by producing projects for the needs of the public, private and non-governmental organizations, and to cooperate with the relevant national and international research and implementing agencies and organizations.

## ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business.

ACCA works to strengthen a global profession based on the application of consistent standards, which we believe best supports international business and the desire of talented people to have successful, international careers. We champion the needs of small and medium sized business (SMEs) and emerging economies, and promote the value of sustainable business.

ACCA works with global bodies such as the International Federation of Accountants (IFAC) and with over 80 global partnerships. We support our 208,000 members and 503,000 students in 179 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of 104 offices and centres and more than 7,300 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

## KPMG

As one of the four largest international companies in the professional services sector, KPMG provides audit, tax and consultancy services with its member firms and 200,000 employees in 156 countries for many sectors including financial services, consumer and retail, industrial manufacturing, energy, telecommunications, technology, chemicals, transportation and construction. KPMG Turkey also provides services with 1,500 employees to more than 4,000 companies from every sector since 1982 through its head office in Istanbul and Ankara and Izmir branches, offering solutions that create value for the industrial trends needed in competition.

As KPMG Turkey, our goal is to assist companies from different sectors in their development of processes for integrated reporting and guide them through their integrated reporting journey - analyze, plan, implement, monitor, report and assure and evaluate processes- to build long-term value. KPMG Turkey is also an approved training partner of IIRC. As KPMG Turkey, we provide IIRC accredited "Integrated Reporting" trainings at introductory and practitioner level in our office in Istanbul.

# Resumes



### **Professor Güler ARAS**

Güler Aras, who is the founding director of Yildiz Technical University's Center for Finance Corporate Governance and Sustainability (CFGS) and serves as a professor at the Department of Finance, has continued her duties as the Dean of Faculty of Economics and Administrative Sciences and Director of the Social Sciences Institute for many years. She also worked as the board member of the university senate and the university, and the founding member and board member of various research centers. Prof. Aras was invited as visiting professor and researcher to various universities in England and the United States. Prof. Dr. Aras was a visiting professor in 2014-2015 at Georgetown University, McDonough's School of Business Center for Financial Market and Policy, where she carried out important projects and researches.

Prof. Aras is the editor of the books series titled "Finance, Governance and Sustainability" and "Corporate Social Responsibility" published by Routledge and has been the editor of "Social Responsibility Journal" for many years. Being a member of the editorial board of numerous academic journals Prof. Aras is also working as the founding editor of "Journal of Capital Market Studies". Prof. Aras has more than 250 works, including a large number of articles and proceedings and various awards, and more than 25 books, which have been published in the fields of finance, capital market, banking, sustainability, corporate governance and integrated reporting. Her recent books titled 'Sustainable Markets for Sustainable Business: Global Perspective for Business and Financial Markets' (2015), 'Transforming Governance: New Values, New Systems in the New Business Environment' (2016) and 'Corporate Behavior and Sustainability: Doing well by being good' (2017) have been published by Routledge. Her latest book titled Women in Corporate Boards; An International Perspective has been published by Routledge in 2018. Prof. Aras also writes regular blogs at Dünya Newspaper.

Prof. Aras has carried out important studies regarding 'Integrated Reporting' and pioneers developments in this field in Turkey. She is the founder of Integrated Reporting Turkey Network (ERTA) and is currently working as the chairperson of this Initiative. Prof. Aras is also a member of the Accountancy Europe Corporate Governance Work Group. She is the founder, member and board member of numerous national and international professional and academic organizations, such as AFA, AOM, SASE, AEA, SFS, TKYD and UFE. In addition to her current duties, Prof. Aras has actively worked in the work commissions of various public bodies and agencies. She served in the work and strategy committees of the Undersecretariat of the Treasury and Foreign Trade, the Ministry of Labor and Social Security, and the Ministry of Development, and in the specialized commissions in the preparation of development plans in the various periods. Prof. Aras has also been an Independent Board Member of the Turkish Capital Markets Association since 2015.

### **Assoc. Prof. Arzu ÖZSÖZGÜN ÇALIŞKAN**

She works in Accounting and Finance Department of the Faculty of Economics and Administrative Sciences- Business Administration at Yildiz Technical University. She was entitled to receive PhD degree by completing her doctorate in the Department of Accounting and Finance of Institute of Social Sciences at Marmara University. Her fields of study and interest include accounting and corporate reporting, and interaction among the business world, community and environment. Since 2013, she has been working as Vice Director at Yildiz Technical University, Center for Finance Corporate Governance and Sustainability (CFGS).

### **Assoc. Prof. Emel ESEN**

She started to work as a Research Assistant in the Organizational Behavior Department of the Faculty of Economics and Administrative Sciences- Business Administration at Yildiz Technical University in 2005. She was entitled to receive PhD degree by completing her doctorate in the Department of Organizational Behavior (English) of Institute of Social Sciences at Marmara University. She has been working as an academic member at Yildiz Technical University since 2013. Her fields of study include Organizational Behavior, Positive Organizational Behavior, Corporate Reputation, and Employer Branding. Since 2013, she has been working as Board Member at Yildiz Technical University, Center for Finance Corporate Governance and Sustainability (CFGS).

### **Assoc. Prof. Özlem KUTLU FURTUNA**

She started to work as a Research Assistant in the Accounting and Finance Department of the Faculty of Economics and Administrative Sciences- Business Administration at Yildiz Technical University in 2005. She was entitled to receive PhD degree by completing her doctorate in the Accounting and Finance Department (English) of Institute of Social Sciences at Marmara University. She has been working as an academic member at Yildiz Technical University since 2014. Her fields of study include Business Finance, Corporate Governance and Corporate Sustainability. In the period 2015-17, she worked as a researcher in the TÜBİTAK project titled "An Alternative Model Suggestion in the Measurement of the Corporate Sustainability Performance: An Application on Turkish Banking Sector" under the direction of Prof. Güler Aras within the YTÜ CFGS. She received the best paper award with her co-author studies titled "Insights from Corporate Cash Holdings in Emerging Markets" in the events named 7th European Business Research Conference organized in 2016 and titled "Comparison of Corporate Sustainability Performance of Turkish Conventional and Participation Banking" in the International Conference on Business, Economics and Finance (ICBEF) organized in 2017. Since 2017, she has been working as Vice Director at Yildiz Technical University, Center for Finance Corporate Governance and Sustainability (CFGS).





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